Montana and Major Components of Healthcare Reform

(Analysis of major components as of 12-18-2012, since this is a dynamic analysis, it is anticipated that there will be changes moving forward.)

The Affordable Care Act (ACA) contains many provisions that will have a financial impact on states. The major financial component of the ACA is the enhanced Federal matching funds for Medicaid to cover uninsured Montanans age nineteen to sixty-four. The following components of the ACA are mandatory:

- The ACA makes changes in Medicaid income eligibility requirements. The ACA requires the use of modified adjusted gross income (MAGI) and prohibits asset tests and most income deductions when determining Medicaid eligibility.

- The ACA makes several changes to Medicaid drug rebate policy that apply upon enactment, including increasing the minimum manufacturer rebate on brand name products from 15.1% to 23.1%. These additional rebates will go directly to the Federal Government, and therefore states will not see the increased revenue.

- States are required to increase Medicaid rates to 100% of Medicare rates in 2013 and 2014 for certain services provided by primary care physicians. These rate increases are paid for with federal funds.

- The ACA reduces aggregate Medicaid disproportionate share hospital (DSH) allotments and requires a methodology to reduce state DSH allotments. The net impact to Montana is minimal, since Montana transfers almost all DSH allotments to the hospitals; however, hospital budgets may be affected.

- The ACA requires Montana to maintain existing Medicaid eligibility until the State's exchange is operational on January 1, 2014.

- States must maintain existing CHIP eligibility through September 2019.

- Under the ACA, as of January 1, 2014, states will be required to provide full Medicaid to former foster children who were receiving Medicaid when they aged out of foster care until they are 26 years old. This impact is included in the financial analysis of the newly eligible population.

- The ACA makes changes to the Federal Medical Assistance Percentage (FMAP) for CHIP. From October 1, 2015 to September 30, 2019 the ACA increases the Federal CHIP match rate by 23 percentage points. Montana anticipates Federal participation to be close to 100% with the additional 23 percentage points starting October 1, 2015. The impact of the FMAP increase is included in the financial analysis of the newly eligible population.

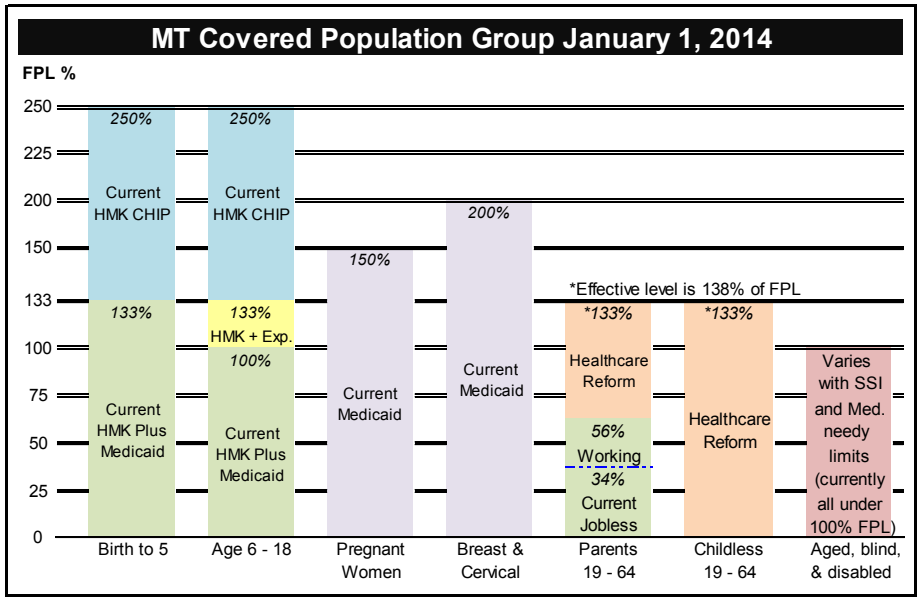
The following components are non-mandatory, but receive enhanced Federal funding:

- Expand Medicaid eligibility to individuals under age 65 with incomes up to 133% of the federal poverty level (FPL). A new income deduction allowance of five percentage points creates an effective eligibility level of **138%** of FPL. There is no deadline by which a state must inform the federal government of its intention to expand Medicaid. States have the flexibility to start or stop the expansion at any time.

- An increase in the FMAP for newly eligible individuals. For the first three calendar years (January 1, 2014 to December 31, 2016), the Federal government bears the full cost of coverage for newly eligible clients. The state share gradually increases from that time until it reaches 10% in 2021. While states have the flexibility to start or stop the expansion, the FMAP rates are tied by law to the above timeline. The enhanced FMAP is only available if a State expands to 133% of FPL. The ACA doesn't provide for enhanced FMAP for partial expansion to any other FPL, such as 100%. There is an option for states to apply for a waiver to implement a partial expansion, but even if approved enhance FMAP would not be available until 2017.

- Individuals who would not have been eligible for benchmark Medicaid coverage under state standards in effect on December 1, 2009 are considered newly eligible. For example, individuals eligible for the Family Planning Medicaid program only receive non-benchmark limited benefits and are counted as newly eligible. Rather than require states to track which members would have been eligible before and after the ACA passed, there is a federal proposal to let states use statistical sampling or data-driven estimates of the proportion of spending associated with the newly eligible population. Currently, it is unclear how the newly eligible population will be tracked.

- Newly eligible Medicaid members must receive benchmark or benchmark-equivalent coverage. Benchmarks include: the Federal employees Blue Cross preferred provider plan; plans offered or available to state employees; the largest non-Medicaid HMO plan in the state; or any other approved plan.



Financial Impacts for HealthCare Reform

This analysis does not include all financial impacts of the reform bill. Only the following elements of the ACA are included:

1. Estimated number of newly eligible adults along with the number of currently eligible children that are anticipated to enroll in Medicaid due to healthcare reform.
2. Estimated state share costs for newly eligible adults. This group will receive enhanced FMAP.
3. Estimated state share costs for new children enrollees that are currently eligible. This group will not receive enhanced FMAP.
4. Approximate administrative costs.
5. Estimated savings to Pregnant Women and Breast & Cervical Cancer Medicaid programs.
6. Estimated savings to the Montana Mental Health Services Plan.
7. Estimated CHIP savings as Federal participation increases 23 percentage points from October 1, 2015 through September 30, 2019.
8. Estimated impact of children shifting from CHIP to Medicaid due to MAGI income disregard.
9. Estimated impact of former foster care children now eligible for Medicaid until 26 years of age.

Assumptions and Analysis

1. Of the total Montana population of 968,946, there are an estimated 187,021 residents or 19% under 138% of poverty (effective level includes 5% income deduction).

2. Of the 187,021 residents under 138% of poverty, 56,683 or 30% are uninsured; 47,382 of these uninsured are adults 19 to 64.

3. Of the 187,021 residents under 138% of poverty, 58,044 or 31% have private insurance; 29,709 of these are adults 19 to 64.

CY 2008 - CY 2010 Baseline Figures for Healthcare Reform
Montana Population & Demographics Under 138% of Poverty (Effective Rate)
(Effective rate is 133% of poverty + 5% income deduction specified in bill)

		Age			
Description	**Total**	**0-5**	**6-18**	**19-64**	**65+**
Total Montana Population Estimate	968,946	86,367	139,237	585,910	157,432
Under 138% of Poverty Average (approx)	187,021	25,794	33,775	99,174	28,278
Percent of MT population	*19.30%*				
Percent of Under 138% Poverty	*100.00%*				
Uninsured under 100% Poverty (approx)	38,924	1,687	5,076	31,830	330
Uninsured 100% - 138% Poverty (approx)	17,760	509	1,556	15,552	142
Total uninsured under 138% of Poverty	56,683	2,196	6,632	47,382	473
Percent of Under 138% Poverty	*30.31%*				
Privately insured under 100% FPL (approx)	30,003	2,727	7,760	16,598	2,919
Privately insured 100% - 138% Poverty (approx)	28,042	1,676	3,056	13,111	10,198
Total Privately Insured under 138% of Poverty	58,044	4,403	10,816	29,709	13,116
Percent of Under 138% Poverty	*31.04%*				

Source: US Census Bureau, Current Population Surveys.

4. In addition to the adult expansion population, assume that the national attention and additional access under the proposal will bring more children into the system. This is often referred to as the "welcome mat" effect. The table above shows the newly eligible and welcome mat population estimates using census data as of 2011. Assume annual enrollment growth of 1.5% until 2014 to estimate the number of eligible individuals due to Medicaid expansion.

5. Take-up is the number of people in the eligible population who enroll in Medicaid. This analysis assumes the following take-up rates for Medicaid under Healthcare reform.

Take-Up Rates

	Low	Middle	High
Uninsured Adults*	75%	85%	95%
Privately Insured Adults	50%	70%	82%
Uninsured Children	5%	10%	15%
Privately Insured Children	5%	10%	15%

* CMS estimated a 95% uninsured adult take-up rate. Kaiser Family Foundation estimated 75%.

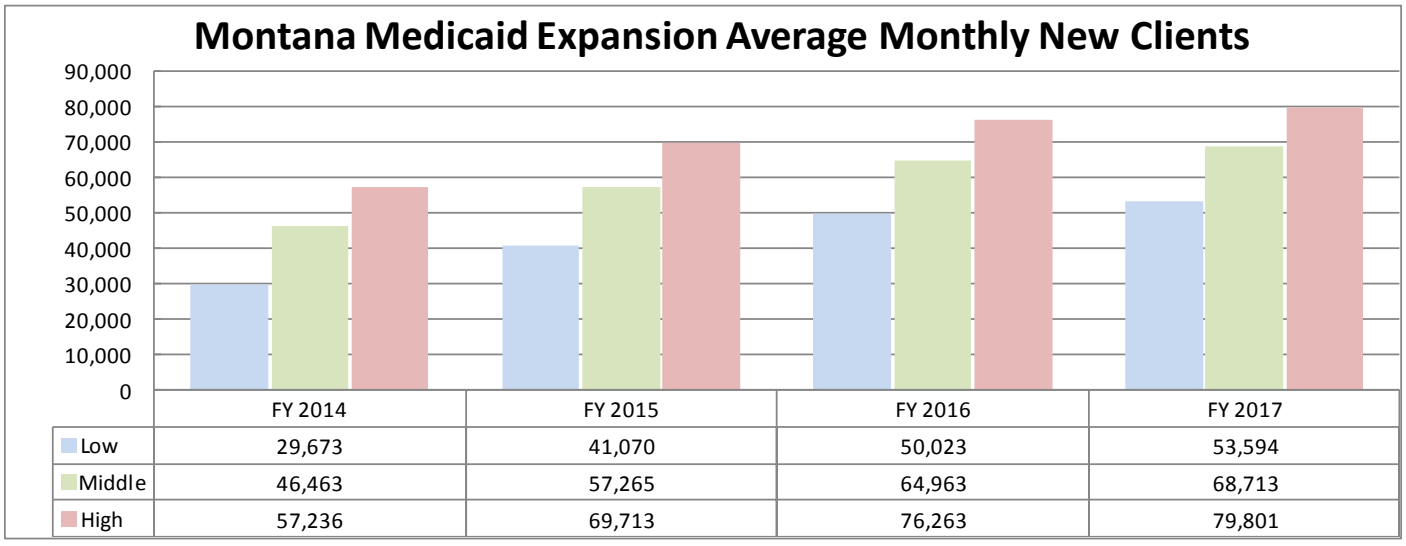
6. Where possible, the analysis uses three different estimates: low, middle, and high. The low estimate is configured to show the smallest financial impact to Montana, the high projection shows the largest financial impact.

7. Assume annual enrollment growth of 1.5%, and that the newly eligible population will phase in over time. Historically, new Montana Medicaid programs have taken several years to reach full participation. Also, there is some concern of a possible initial shortage of Medicaid providers to serve the newly eligible population. Assume the following phase in of clients into Medicaid.

Phase-In Rates

	FY 2014	FY 2015	FY 2016	FY 2017
Low	55%	75%	90%	95%
Middle	70%	85%	95%	99%
High	75%	90%	97%	100%

8. Per the above assumptions, the chart below shows the estimated number of additional clients in each scenario.



	FY 2014	FY 2015	FY 2016	FY 2017
Low	29,673	41,070	50,023	53,594
Middle	46,463	57,265	64,963	68,713
High	57,236	69,713	76,263	79,801

9. Medicaid non-disabled adults on average cost about $650 per month, while Medicaid children cost about $300 per month. This analysis assumes existing Medicaid coverage as the benchmark benefit package for newly eligible clients. This is the only currently approved benchmark level of coverage.

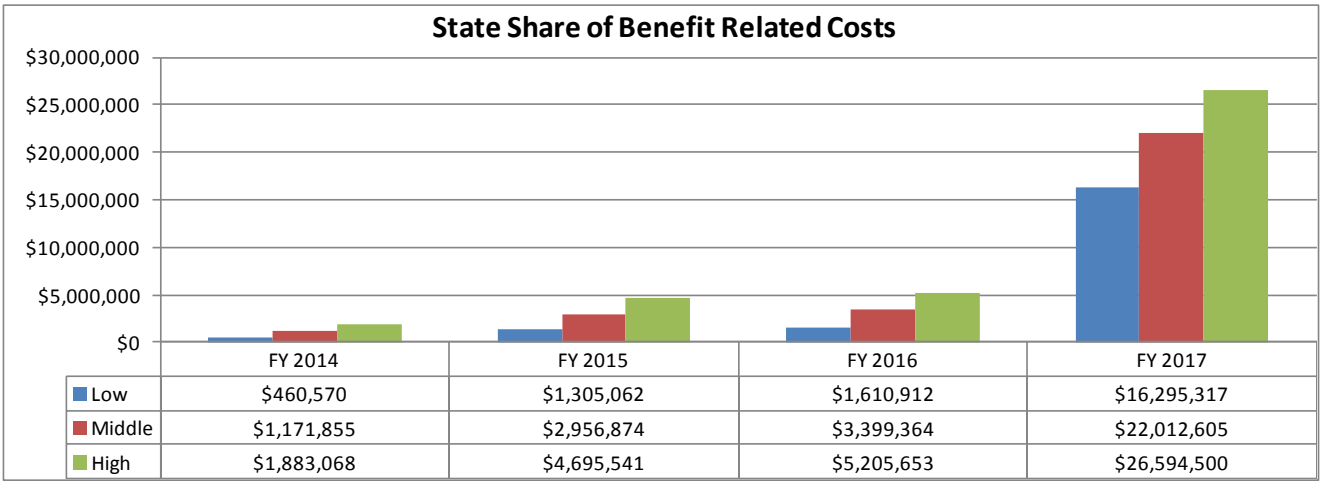
10. Overall costs for adults increase by approximately 8% annually, while costs for children increase by approximately 3% annually. These growth rates include annual enrollment growth of 1.5%.

11. The State share or Federal Medical Assistance Percentages (FMAP) for newly eligible adult clients under the reform bill, blended for state fiscal years, is shown in the chart below. Clients currently eligible for Medicaid will still have the current FMAP rates that are not enhanced by the reform bill. The current FMAP has not been projected past 2016 and is held constant at that rate for FY 2017.

Federal Medical Assistance Percentages (FMAP)
Montana State Share Percentage

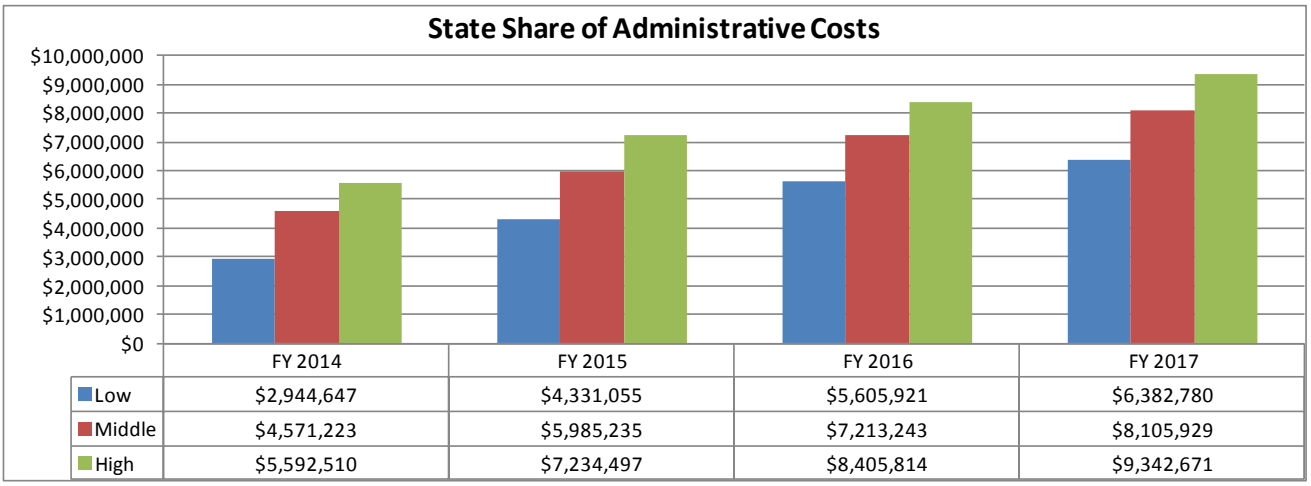
State Fiscal Year	Clients Currently Medicaid Eligible	New Adults Under Reform
FY 2010	32.52%	
FY 2011	33.14%	
FY 2012	33.79%	
FY 2013	34.01%	
FY 2014	34.38%	0.0%
FY 2015	34.80%	0.0%
FY 2016	34.87%	0.0%
FY 2017	34.87%	2.5%

12. Per the above assumptions, the following table shows the estimated State share of benefit related costs for adults and children. Expenditures from 2014 to 2016 are all attributable to currently eligible “welcome mat” children.



	FY 2014	FY 2015	FY 2016	FY 2017
Low	$460,570	$1,305,062	$1,610,912	$16,295,317
Middle	$1,171,855	$2,956,874	$3,399,364	$22,012,605
High	$1,883,068	$4,695,541	$5,205,653	$26,594,500

13. Administrative costs are currently 6.2% of total benefits with the state share equal to 2.6% of total benefits. Estimate assumes that the administrative cost ratio would be lower for new expenditures due to economies of scale. Administrative costs for new expenses will equal 2.6% overall and 1.1% for the state share. Administrative costs in 2014 are estimated at a full-year amount, as start-up costs will be proportionally higher.



	FY 2014	FY 2015	FY 2016	FY 2017
Low	$2,944,647	$4,331,055	$5,605,921	$6,382,780
Middle	$4,571,223	$5,985,235	$7,213,243	$8,105,929
High	$5,592,510	$7,234,497	$8,405,814	$9,342,671

14. **Medically Needy**: These individuals qualify for Medicaid by "spending down". The costs of health care that an individual has incurred are deducted from the income that an individual receives in determining whether he or she qualifies for Medicaid. At this time it is unclear what the impact of the ACA on the medically needy population will be. Currently, assume that those individuals already served by Medicaid will not be eligible for the enhanced FMAP. If a medically needy individual qualifies for Medicaid under the expansion, Montana will continue to pay the current FMAP for their benefits, but no longer collect the "spend down" from the individual. However, the medically needy individuals that are not covered by the expansion might select insurance through the exchange and their medical benefits will no longer be paid by Medicaid. These savings and costs would offset. At this time, no impact is calculated for the medical needy population.

15. **Family Planning Waiver:** This analysis assumes that individuals who receive coverage through the Family Planning Waiver and are newly eligible will receive the enhanced FMAP. These individuals have already been counted in the census data and included in the take-up of newly eligible individuals. Montana's Family Planning Waiver has been approved by CMS through December 31, 2013.

16. **Pregnant Women:** Montana covers pregnant woman up to 150% of FPL. This analysis assumes these women under 138% of FPL will be in the newly-eligible population. Pregnant women in the expansion population will not receive the enhanced FMAP because they would have been eligible for Medicaid under pre-ACA eligibility rules. Those pregnant women over 138% of FPL will have the option of seeking insurance through the exchange. Assume that 8% of the Medicaid eligible pregnant women are over 138% FPL and half of them get insurance through the exchange. Montana will experience savings from not paying for their benefits estimated at $4,465,011 from SFY 2014 to SFY 2017.

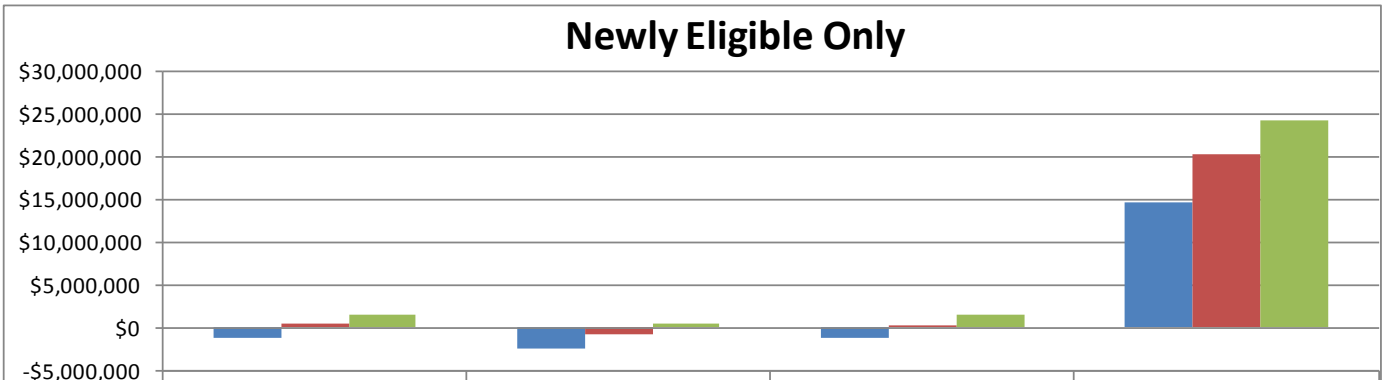
17. **Breast and Cervical Cancer:** Montana covers women with breast and cervical cancer up to 200% of poverty. Assume those individuals at or below 138% of poverty will be new Medicaid clients but will **not** receive the enhanced FMAP. Assume that half of the individuals above 138% of poverty will find insurance through the exchange and half will continue with their Medicaid benefit. Montana will experience savings from not paying for their benefits estimated at $731,765 from SFY 2014 to SFY 2017.

18. **The Mental Health Services Plan (MHSP) Savings:** The MHSP program is currently funded with 100% State funds, but under the reform bill, most clients will be eligible for Medicaid and will receive the enhanced FMAP. The MHSP program currently expends about $8 million per year on mental health services. The savings generated by the shift of the MHSP population to Medicaid is shown below.

MHSP Savings

SFY 2014	SFY 2015	SFY 2016	SFY 2017
$3,508,615	$5,470,786	$5,380,695	$4,560,232

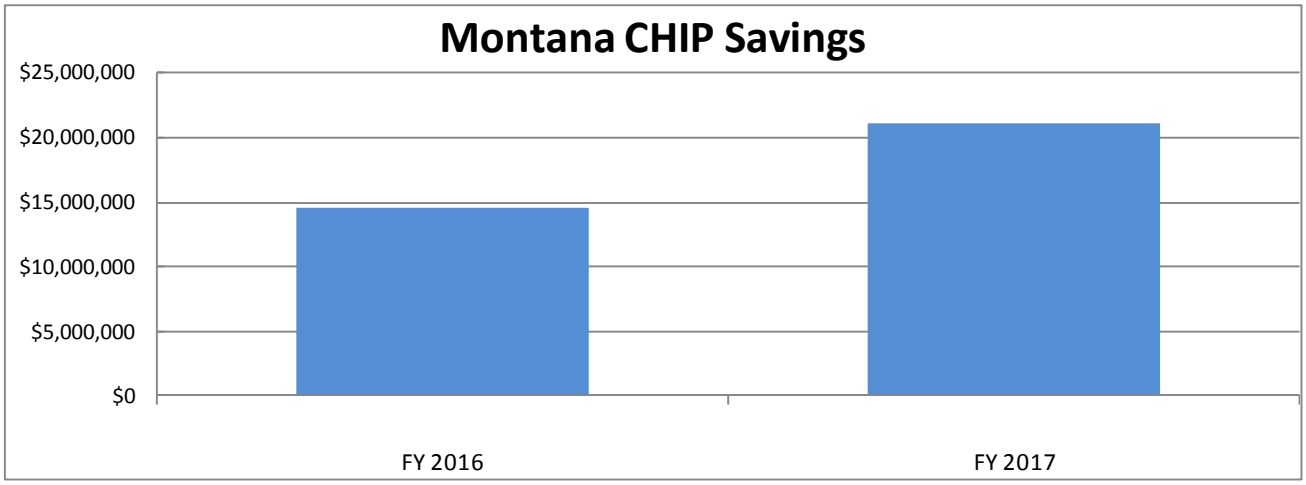
19. **Newly Eligible:** Includes Savings from MHSP, Breast and Cervical, and Pregnant Women.



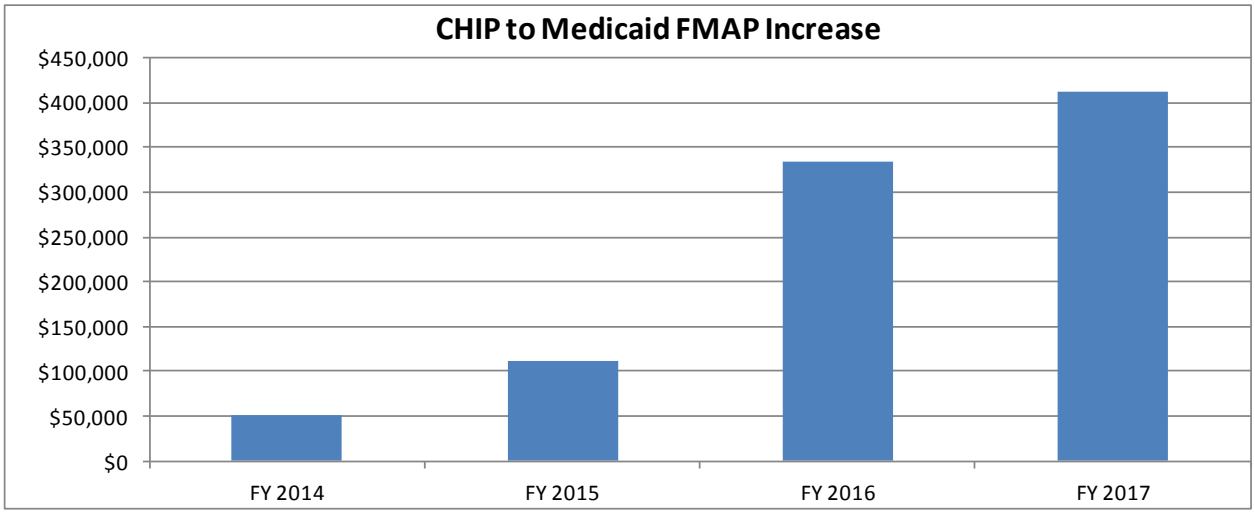
	FY 2014	FY 2015	FY 2016	FY 2017
Low	-$1,203,549	-$2,538,697	-$1,291,478	$14,730,650
Middle	$423,026	-$884,517	$315,845	$20,279,940
High	$1,444,314	$364,745	$1,508,415	$24,225,837

20. **Mandatory Coverage of Foster Children until Age 26:** Montana currently provides Medicaid coverage to foster children under age 19. The ACA includes mandatory coverage for former foster children to age 26 beginning on January 1, 2014. It is undecided at this time if these individuals will qualify as newly eligible and receive the enhanced FMAP. Current indications are this population will **not** receive the enhanced FMAP. If the newly eligible foster care children are served at current projected FMAP, estimate that Montana will pay $4,534,360 for their benefits from SFY 2014 to SFY 2017.

21. **CHIP FMAP Increase:** Under the reform bill, the FMAP for CHIP is expected to increase by 23 percentage points from October 1, 2015 through September 30, 2019. CHIP savings is estimated using current CHIP budget amounts and an annual growth rate of 10% based on per-member per-month costs and population growth.

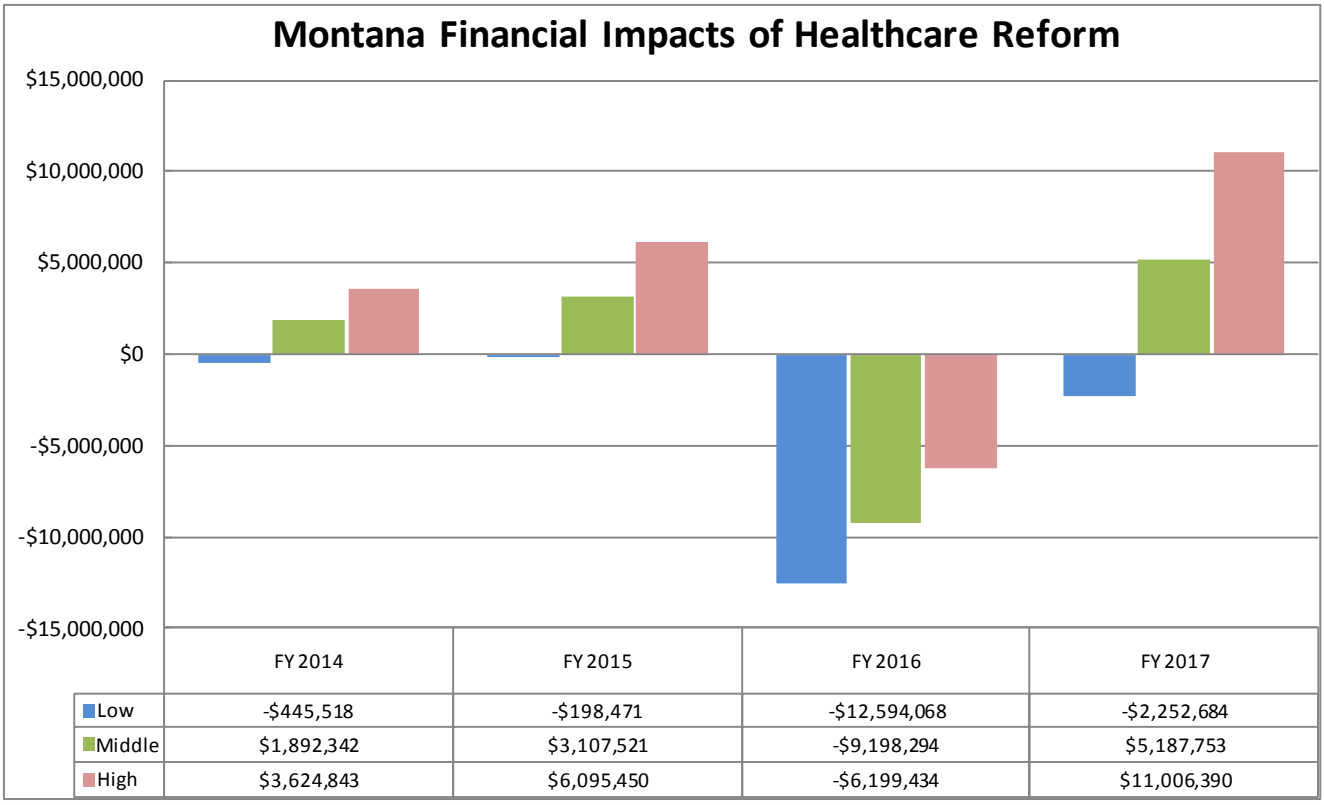


22. **Use of MAGI when Determining Medicaid Eligibility:** The ACA makes changes in Medicaid income eligibility requirements for non-disabled clients under the age of 65. The ACA requires the use of modified adjusted gross income and prohibits asset tests and most income deductions. This change will move children currently eligible for CHIP that are between 133% and 138% of FPL to Medicaid. Current Medicaid children age 6-18 already receive the enhanced CHIP FMAP. For children age 0-5 the state has a higher FMAP percentage for these children and will incur costs. The chart below shows the projected cost to the State.



23. **Other State Health Insurance Programs:** Insure Montana offers two programs, a tax credit program to small business owners who are currently providing health coverage, and monthly subsidy payments for small businesses that are currently unable to provide a group health plan. The Montana Comprehensive Health Association offers individual health insurance policies to eligible Montana residents who are considered uninsurable due to medical conditions. All of these programs could see a reduction once the ACA is implemented. This analysis does not include any estimate of savings.

24. **Total Change:** The chart below combines the expenditures and savings together for each fiscal year. The chart includes all estimates for the newly eligible population and the other requirements of healthcare reform.



	FY 2014	FY 2015	FY 2016	FY 2017
Low	-$445,518	-$198,471	-$12,594,068	-$2,252,684
Middle	$1,892,342	$3,107,521	-$9,198,294	$5,187,753
High	$3,624,843	$6,095,450	-$6,199,434	$11,006,390

This analysis does not include all financial impacts of the reform bill. The analysis covers the following financial impacts of the ACA:

1. Estimated number of newly eligible adults along with number of currently eligible children that are anticipated to enroll in Medicaid due to healthcare reform.
2. Estimated state share costs for newly eligible adults. This group will receive enhanced FMAP.
3. Estimated state share costs for new children enrollees that are currently eligible. This group will not receive enhanced FMAP.
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5. Estimated impact to Pregnant Women and Breast & Cervical Cancer Medicaid program.
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7. Estimated CHIP savings as Federal participation increases from October 1, 2015 through September 30, 2019.
8. Estimated effect of children shifting from CHIP to Medicaid due to MAGI income disregard.
9. Estimated impact of former foster care children eligible for Medicaid until 26 years of age.

Medicaid Expansion Under National Healthcare Reform
Jan. 1, 2014 Effective Date. State Match Begins Jan. 1 2017.
CHIP Federal FMAP increases 23% Oct. 1, 2013 to Sept. 30, 2019
Cover All Population Under 133% of Poverty (Effective FPL is 138% FPL with 5% income deduction)

Middle Projection	Proposal 1/2 Year	State Share % new 0%	State Share % new 0%	State Share % new 2.5%
MT Medicaid Additional Costs Under Proposal	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
Estimated monthly average of new adult clients under proposal	44,702	55,096	62,501	66,110
Estimated average monthly welcome mat children	1,760	2,170	2,461	2,603
State share with new FMAP medical benefit costs for new clients	$ -	$ -	$ -	$ 18,375,770
State share medical benefit costs for added children already eligible	$ 1,171,855	$ 2,956,874	$ 3,399,364	$ 3,636,836
State share of admin. costs	$ 4,571,223	$ 5,985,235	$ 7,213,243	$ 8,105,929
State costs due to CHIP children shifting to Medicaid under MAGI	$ 51,568	$ 112,570	$ 333,491	$ 413,327
State Cost of covering Foster Children to age 26	$ 245,893	$ 922,594	$ 1,404,086	$ 1,961,787
Montana costs under proposal (State only)	**$ 6,040,539**	**$ 9,977,273**	**$ 12,350,184**	**$ 32,493,648**
MT Savings Under Proposal	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
CHIP FMAP, Federal Share increase	$ -	$ -	$ (14,651,080)	$ (21,104,136)
MHSP program	$ (3,508,615)	$ (5,470,786)	$ (5,380,695)	$ (4,560,232)
Pregnant Women Coverage	$ (550,134)	$ (1,203,450)	$ (1,303,141)	$ (1,408,286)
Breast and Cervical Cancer Coverage	$ (89,447)	$ (195,515)	$ (213,562)	$ (233,241)
Montana savings under proposal (State only)	**$ (4,148,196)**	**$ (6,869,752)**	**$ (21,548,478)**	**$ (27,305,895)**
Montana Total costs under proposal (State only)	**$ 1,892,342**	**$ 3,107,521**	**$ (9,198,294)**	**$ 5,187,753**